Stakeholder Comments Template

Transmission Access Charge Options

May 20, 2016 Revised Straw Proposal

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the May 20, 2016 revised straw proposal. The revised straw proposal, presentations and other information related to this initiative may be found at: http://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionAccessChargeOptions.aspx

Upon completion of this template please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **June 10, 2016.**

SMUD appreciates the opportunity to comment on the CAISO's *Transmission Access Charge Options for Integrating New Participating Transmission Owners – Revised Straw Proposal* (May 20, 2016).

As an initial matter, governance is a critical piece to the regional ISO proposal and joins other stakeholders in expressing concern about advancing the TAC issue before governance is determined. Although governance concepts have been proposed, and most recently the CAISO has released Proposed Principles for Governance of a Regional ISO, there remains much uncertainty about its formation, structure, and role. SMUD strongly supports prioritization of governance before any decisions on TAC and the other regional initiatives are made. SMUD also notes that the governance process is on an aggressive timeline and urges the CAISO to take more time to properly vet the governance issues and ensure it is not rushed without fully understanding the implications for California and the region as a whole.

Revised Straw Proposal

1. In the previous straw proposal the ISO proposed to define sub-regions, with the current ISO footprint as one sub-region and each PTO that subsequently joins as another sub-

region. Now the ISO is proposing an exception to allow a new PTO that is embedded within or electrically integrated with an existing sub-region to have a one-time choice to join that sub-region or become a separate sub-region. Please comment on whether such an embedded/integrated new PTO should become a new sub-region, be given a one-time choice, or whether another approach would be preferable.

While conceptually this may be supportable if the CAISO adopts its proposal as is, it is not clear what the terms "embedded" or "electrically integrated" mean. At the June 1 stakeholder meeting, the CAISO committed to provide more engineering details on what it considers an "embedded" and "electrically integrated" new PTO. SMUD looks forward to reviewing the details to determine what entities would qualify.

2. The proposal defines "existing facilities" as transmission assets in-service or planned in the entity's own planning process for its own service area or planning region, and that have either begun construction or have committed funding. The ISO proposed criteria for what constitutes a facility having "begun construction" and "committed funding" and for how these criteria would be demonstrated. Please comment on these criteria and their use for this purpose.

   The CAISO has proposed using the recent IRS Notice 2016-31, which was released May 5, 2016, as guidance for "begun construction" and "committed funding." SMUD believes that the CAISO could take a different approach such that unless a facility is deemed "new," it will be designated as "existing." The purpose of the IRS notice is to provide wind developers guidance on the "begun construction" or "committed funding" criteria to qualify for the Production Tax Credit. A new PTO will do the opposite – it will seek to *not* meet the criteria as it will want a transmission facility to be considered a new facility so the costs are allocated regionally across the expanded BAA.

   Generally the assumption should be made that any committed/planned transmission facility will be more expensive than embedded costs for existing transmission. Therefore a new PTO will have an economic incentive to have a committed/planned project be designated as a "new regional" project so that its high costs are spread regionally to all PTOs in the expanded BAA.

   Instead, the CAISO should establish a clear, high bar criteria under which a project is to be designated a "new" facility, otherwise the committed/planned project will be deemed to be "existing." While use of an objective and clear definition is preferred, use of the IRS notice appears to be out of place in this context.

3. The proposal defines "new facilities" as transmission projects planned and approved in an expanded TPP for the expanded BAA. Projects that are under review as potential "inter-regional" projects prior to the new PTO joining may be considered as "new" as long as the "existing" criteria are not met. Please comment on the potential inclusion of candidate inter-regional projects in the new facilities category.

The CAISO's proposal that any project that fails the test for an "existing" facility will be deemed "new," is a faulty approach. Instead, it should be the reverse – a project must meet criteria for a "new facility" because PTOs will want their facilities to qualify as "new." The burden should be on the PTO to demonstrate the facilities are "new," otherwise it cannot benefit from regional cost sharing. At the June 1, 2016 stakeholder meeting the CAISO commented that it intends to clarify this distinction between "new" vs. "existing" facilities, and the clearest way to do this is for the CAISO to make the "new facilities" definition the default, with the definition of "existing facilities" as all other facilities.

SMUD urges the CAISO to include details of the integrated TPP process in the TAC proposal as this is critical to stakeholder approval of a "new" vs. "existing" facility test.

Regarding interregional projects, for consistency, interregional projects should be treated the same as regional projects, subject to the definitions of "existing facilities" vs. "new facilities." A proposed interregional facility may connect the new PTO and a neighboring BAA in WestConnect, for example. This type of project should still be treated as an interregional project even if the new PTO joins the expanded BAA.

4. <u>Consistent with the previous straw proposal, the ISO proposes to recover the costs of existing facilities through sub-regional "license plate" TAC rates. The ISO's decision to retain the previous proposal, rather than develop a new proposal for allocating some costs of existing facilities across the sub-regions, was based on the importance of retaining the principle that only new facilities planned through the expanded TPP should be eligible for region-wide cost allocation. Please comment on the license plate approach and the logic for retaining that approach, as explained here and in the revised straw proposal.</u>

SMUD has no comment at this time.

5. <u>"New facilities" will undergo a two-step process to determine eligibility for regional cost allocation. First, the project must be planned and approved through the integrated TPP for the expanded BAA. Second, the project must meet at least one of three criteria to be a "new regional facility" eligible for region-wide cost allocation. Please comment on the two-step process to determine "new facilities."</u>

SMUD proposes adding an additional step to the two-step eligibility process of "new facilities." This additional first step establishes that a project that has already been approved cannot then be resubmitted to the ISO for its integrated regional TPP.

1. The project, or one substantially similar, must not have previously been approved by an authorizing regulatory body[1]; and

[1] The purpose of this step is to ensure that a project that has already been approved is not re-packaged by the new PTO to seek regional cost allocation across the expanded BAA through the ISO integrated TPP. While we recognize

2. The project must be planned and approved through the ISO integrated regional Transmission Planning Process (TPP); and

3. The project must meet at least one of three criteria the CAISO has included in its proposal in section 4.

6. The proposal would allocate the cost of new reliability projects approved solely to meet an identified reliability need within a sub-region entirely to that sub-region. Please comment on the proposed cost allocation for new reliability projects.

   This proposal seems reasonable as it allocates costs based on benefits. However, it is not clear from the proposal how reliability projects that meet identified reliability projects in more than one sub-region will be treated.

7. The ISO proposes that a body of state regulators, to be established as part of the new regional governance structure, would make decisions to build and decide allocation of costs for new economic and policy-driven facilities. Please comment on this proposal.

   Without the regional governance structure formed and the specifics of how decision-making is made (e.g. weighted votes, equal voting share, or a combination), it is difficult to comment on this specific proposal. Additionally, publicly-owned utilities are typically not regulated by state commissions, and therefore a body of state regulators may not adequately represent all facets of the regional ISO. A role for publicly-owned utilities is critical, and the CAISO's Proposed Principles for Governance of a Regional ISO recognizes this; however, specifics of this role have to be expanded on before an informed discussion can occur.

8. Competitive solicitation to select the entity to build and own a new transmission project would apply to: (a) economic and policy-driven transmission projects approved by the body of state regulators for regional cost allocation, and (b) new projects whose costs are allocated entirely to one sub-region but are paid for by the ratepayers of more than one PTO within that sub-region. The ISO has determined that this policy is consistent with FERC Order 1000 regarding competitive solicitation. Please comment on this proposal.

   SMUD has no comment at this time.

9. FERC Order 1000 requires that the ISO establish in its tariff "back-stop" provisions for approving and determining cost allocation for needed transmission projects, in the event that the body of state regulators is unable to decide on a needed project. The revised straw proposal indicated that the ISO would propose such provisions in the next proposal

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some clarity is needed on what "substantially similar" means, this can be developed in future iterations of the proposal.

for this initiative. Please offer comments and your suggestions for what such provisions should be.

SMUD has no comment at this time.

10. The proposal indicated that the ISO would establish a formula for a single export rate (wheeling access charge or WAC) for the expanded region, and this rate would be a load-weighted average of all sub-regional license plate rates plus any region-wide postage stamp rate. Please comment on this proposal.

    SMUD has no comment at this time.

11. The ISO proposed to retain the provision that once the BAA was expanded and a new TPP instituted for the expanded BAA, any subsequent PTO joining at a later date could be responsible for a cost share of new regional facilities approved in the expanded TPP, based on the benefits the new PTO receives from each such facility. Please comment on this proposal.

    A subsequent PTO (e.g. PTO#2) joining the expanded BAA should not be responsible for new regional facilities approved prior to it joining. Similar to the rationale that applies to "legacy facilities" of the CAISO and PTO#1, any facility approved under the expanded TPP should not later be re-allocated to a new PTO. When a new PTO joins the expanded BAA, costs should be allocated prospectively only based on facilities approved while the new PTO participates in the expanded TPP. This is consistent with the clear principle articulated by the CAISO in its proposal that "any facilities eligible for region-wide cost allocation would have to be planned and approved under an IPP that includes *all member PTOs and their stakeholders*." Subjecting a subsequent new PTO to facility costs in a TPP in which it did not participate is contrary to this clear principle.

12. The ISO dropped the proposal to recalculate sub-regional benefit shares for new regional facilities every year, and instead proposed to recalculate only when a new PTO joins the expanded BAA and creates a new sub-region, but at least once every five years. Please comment on this proposal.

    See comment to number 11 above. A new PTO should not be responsible for costs of facilities brought by any prior PTO in the expanded BAA. To do otherwise would create uncertainty with new PTOs.

13. Please provide any additional comments on topics that were not covered in the questions above.

    - SMUD supports the application of the TAC proposal to high-voltage transmission facilities rated >200kV.

- There is also one key issue left unaddressed by the CAISO's TAC proposal: the assumptions underlying its premise that projects (including Gateway) may provide RPS-related benefits to California. Under SB 350 and its predecessor, AB 32, resources like wind or solar located outside California do not qualify as "bucket one" renewables unless they are scheduled from an eligible resource "into a California balancing area." Therefore, unless the CAISO is able to obtain clarification that renewables transmitted from PacifiCorp into California will be considered "eligible resources" transmitted "into a California balancing area," the benefits part of the cost allocation analysis cannot be completed. And, if PacifiCorp cannot demonstrate any benefits to the region it would render any debate about the proper method of allocating the costs of projects like Gateway largely irrelevant.

  Putting the "bucket one" issues posed by SB 350 aside, the CAISO's proposal does not address the interrelationship between integration of PacifiCorp into the CAISO and the impact of Oregon's new Clean Energy and Coal Transition Act (the Act). This law requires retail distribution utilities within Oregon to eliminate reliance on coal-fired generation by 2030. It also requires the larger utilities in the state such as PacifiCorp to meet electricity demand with 50% renewables by 2040. These statutory changes will have a material impact on any benefits that might otherwise redound to current CAISO TAC customers from the Gateway facilities. In other words, the likely principle benefit of transmission projects like Gateway will be to fill the void *in Oregon* left by the retiring coal power supply and the shift to more renewables. Indeed, it is also likely that California's *existing* transmission facilities may be used by PacifiCorp to meet its needs in Oregon as it complies with the Act. The Act thus shifts assumptions and raises new questions that should be addressed in the TAC proceeding.